

Message Text

LIMITED OFFICIAL USE

PAGE 01 COLOMB 02961 161243Z

47

ACTION AID-59

INFO OCT-01 NEA-10 ISO-00 AGR-05 L-03 IGA-01 SP-02 EB-07

NSC-05 CIEP-01 TRSE-00 SS-15 STR-04 OMB-01 CEA-01

CIAE-00 COME-00 FRB-03 INR-07 NSAE-00 USIA-06 XMB-02

OPIC-03 LAB-04 SIL-01 PRS-01 /142 W

----- 119292

P 161135Z SEP 75

FM AMEMBASSY COLOMBO

TO SECSTATE WASHDC PRIORITY 3426

LIMITED OFFICIAL USE COLOMBO 2961

E.O. 11652:N/A

TAGS: ECON, EFIN, EAID, CE

SUBJECT: SRI LANKA ECONOMIC, FINANCIAL, AND FOOD OUTLOOK

REF: COLOMBO 2409

1. SUMMARY: SRI LANKA'S STATUS AS MOST SEVERELY AFFECTED (MSA) DEVELOPING NATION IS CONFIRMED BY CONTINUED EVIDENCE OF BALANCE OF PAYMENTS DETERIORATION. WE UNDERSTAND RELIABLY THAT GSL FACES VERY SERIOUS SHORT-TERM LIQUIDITY PROBLEM AND PROJECTS UP TO US \$118 MN.UNFINANCED FOREIGN EXCHANGE GAP AS OF END CY 1975. FOLLOWING RECENT DEPARTURE OF TROTSKYITE LANKA SAMA SAMAJA PARTY(LSSP) FROM PRIME MINISTER BANDARANAIKE'S UNITED FRONT COALITION, GSL NOW FACES PERIOD OF DIFFICULT AND POLITICALLY SENSITIVE ECONOMIC PLANNING AND BUDGETING WITH POSSIBILITY OF SOME PRAGMATIC POLICY CHANGES FOR CY 1976. ALTHOUGH FOOD SUPPLY SITUATION IS IMPROVED COMPARED TO LAST THREE YEARS, MALNUTRITION CONTINUES SERIOUS PROBLEM AMONG POOREST CEYLONENE. ALMOST CHRONIC DROUGHT IN MAJOR NORTHERN PADDY AREAS IN MAIN FACTOR IN RELATIVELY POOR CY 1975 DOMESTIC RICE CROP. GSL RICE STOCKS WILL RUN

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 COLOMB 02961 161243Z

SHORT OF RATION REQUIREMENTS IN DECEMBER OR JANUARY.

FROM PRESENT STOCK, EXPECTED IMPORTS AND DISTRIBUTION
FIGURES GSL PROJECTS MINIMUM 264,000 TON TOTAL FLOUR GAP, IN
CY 1976 WHICH MUST BE COVERED BY COMMERCIAL PURCHASE OR PL 480.

2. PL 480 PROGRAM CONTINUES TO BE PRIMARY CONTINUING
TANGIBLE EVIDENCE OF U.S. SUPPORT FOR PRIME MINISTER
BANDARANAIKE'S GOVERNMENT WHICH IS NOW MOVING INTO
ROLE OF INCREASING PROMINENCE AS MODERATE IN NON-
ALIGNED MOVEMENT. WE WANT TO PREVENT FORCING GSL
FROM RECOURSE TO COSTLY COMMERCIAL PURCHASES TO
COVER CY 1976 WHEAT FLOUR GAP. WE WANT TO ASSURE
GSL OF AMERICAN SUPPORT DURING PRESENT BUDGET
PREPARATION. WE BELIEVE SIGNIFICANT AMOUNT BOTH
IN FLOUR TONNAGE AND IN DOLLARS IS JUSTIFIED BY
FOOD SUPPLY, NUTRITIONAL, FINANCIAL AND POLITICAL
CONSIDERATIONS. THIS YEAR EARLIEST POSSIBLE
AUTHORIZATION IS ESPECIALLY IMPORTANT TO ENABLE GSL
TO PLAN RATIONALLY ITS FOOD IMPORT PROGRAM FOR
CY 1976 AND TO SIGNAL TO PRIME MINISTER AND
NEW FINANCE MINISTER THAT THEY CAN COUNT ON U.S.
SUPPORT AS THEY SEEK TO IMPLEMENT MORE PRAGMATIC
ECONOMIC POLICIES. WE RECOMMEND AUTHORIZATION
BEFORE OCTOBER 15 TO NEGOTIATE AGREEMENT FOR WHEAT
FLOUR FOR MINIMUM RPT MINIMUM OF 140,000 TONS
PL 480 TITLE I WHEAT. END SUMMARY.

3. IN SEPTEMBER 1975 SRI LANKA CONTINUES TO SUFFER
FROM EXTREME IMPACT OF ADVERSE TERMS OF TRADE AND
RAPIDLY INCREASING DEBT SERVICE. PRIME MINISTER
STRESSED TO AMBASSADOR PROBLEM GSL FACES
IN HANDLING FOREIGN EXCHANGE GAP OF ABOUT US \$150 MILLION
(SHE DID NOT SPECIFY TIME PERIOD).
PLANNING MINISTRY EXTERNAL RESOURCES DIVISION HAS
RECENTLY GIVEN US CY 1975 FOREIGN EXCHANGE
PROJECTION WHICH GIVES OVER RS. 80 MN. (US \$118 MN)
UNFINANCED FOREIGN EXCHANGE SHORTFALL AS OF DEC. 31,
1975. (SEE SEPTEL FOR DETAILS.)

4. GIVEN EXPECTED BEHAVIOR IN CY 1975 FOR PRICES OF
SRI LANKA'S MAIN EXPORTS (TEA RUBBER, AND COCONUT)
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 COLOMB 02961 161243Z

AND IMPORTS (GRAIN, CRUDE OIL, AND FERTILIZER) THERE
IS LITTLE HOPE FOR SIGNIFICANT BALANCE OF PAYMENTS
IMPROVEMENT NEXT YEAR.

5. FOLLOWING PRIME MINISTER'S EARLY SEPTEMBER
EXPULSION OF LSSP, NEW FINANCE MINISTER FELIX DIAS
BANDARANAIKE HAS RETURNED FROM WASHINGTON IMF/IBRD
MEETINGS TO FACE VERY DIFFICULT TASK OF DRAFTING

CY/FY 1976 BUDGET FOR PRESENTATION NOVEMBER 5.
WORSENING BALANCE OF PAYMENTS SITUATION WILL BE
KEY ELEMENT. FOREIGN ASSISTANCE WILL BE ESSENTIAL
TO COVER EXCHANGE SHORT-FALL IF GSL IS TO BE
SUFFICIENTLY STRONG FINANCIALLY TO MAKE PRAGMATIC
ECONOMIC DECISIONS REPORTEDLY UNDER CONSIDERATION.
ASSURED PL 480 WHAT FLOUR IN CY 1976 WOULD BE ONE
VERY SIGNIFICANT FACTOR NEW FINANCE MINISTER COULD
TAKE INTO ACCOUNT IN MAKING TOUGH DECISIONS.

6. DESPITE IMPROVED GRAIN SUPPLY SITUATION LARGELY
OWING TO IMPORTS, SRI LANKA'S NATIONAL DIET REMAINS
POOR AND MUCH MALNUTRITION CONTINUES TO BE REPORTED,
ESPECIALLY FROM DROUGHT-STRICKEN, INCREASINGLY
MALARIAL NORTHERN AREAS. CY 1975 RICE CROP WILL
BE LESS THAN IN 1974. FOOD COMMISSIONER (FC) SAYS GSL
RICE STOCKS FROM DOMESTIC PRODUCTION AND IMPORTS
WILL NOT BE SUFFICIENT TO COVER RATION AFTER
DECEMBER/JANUARY. GSL HAS REQUESTED ADVANCE
SHIPMENT OF PRC RICE, BUT SLOW LOADING/SHIPPING MAKE
SIGNIFICANT EARLY DELIVERIES UNLIKELY.

7. ACCORDING FC, WHEAT FLOUR STOCK, EXPECTED IMPORTS
AND DISTRIBUTION FIGURES ARE
DIFFERENT FROM THOSE GIVEN REFTEL. PROJECTED
CY 76 FLOUR GAP RESULTS FROM FOLLOWING CALCULATION
(METRIC TONS):

JANUARY 1 STOCK - 130,000

ASSURED IMPORTS - 53,000

GIFTS (EXPECTED BUT NOT YET ASSURED) - 75,000

FLOUR MILLED LOCALLY FROM AUSTRALIAN WHEAT - 96,000

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 04 COLOMB 02961 161243Z

TOTAL FLOUR ASSURED FOR CY76(A) - 354,000

ANNUAL REQUIREMENT AT 42,000 TON MONTHLY RATE - 504,00;

JAN 1, 1976 TWO-MONTH STOCK - 84,000

TOTAL CY 76 REQUIREMENT (B) - 588,000

CY 76 FLOUR SHORTFALL (B) MINUS (A) - 234,000

NOTE: PRINCIPLE ADJUSTMENTS FROM REFTEL ARE INCREASE
IN MONTHLY DISTRIBUTION RATE FROM 40,000 TO 42,000 TONS AND
INCLUSION JAN 1, 1976 CARRY-OVER.

8. BECAUSE RICE SHORT-FALL MIGHT CAUSE FLOUR
DISTRIBUTION TO INCREASE TO UP TO 45,000 TONS,
GAP COULD BE GREATER. SHORTFALL CAN ONLY BE

COVERED THROUGH COSTLY
COMMERCIAL PURCHASES, PRIMARILY FROM FRANCE (SEE
REFTEL) OR THROUGH PL 40 TITLE I WHEAT FLOUR.

9. WE ARE CONVINCED THAT IN FY 75 GSL WOULD
NOT HAVE FELT CONSTRAINED TO PURCHASE SUBSTANTIAL
PORTION OF 295,000 TONS FLOUR ACTUALLY BOUGHT
(FRANCE, 165,000 TONS; AUSTRALIA 100,000 TONS;
SINGAPORE 30,000 TONS) IF WE COULD HAVE ASSURED
SIGNIFICANT PL 480 SUPPLY EARLIER THAN FEBRUARY
WHEN FY 75 100,000 TON AUTHORIZATION WAS
RECEIVED. IN FACT, PRESENT APPARENTLY COMFORTABLE
FLOUR SUPPLY SITUATION RESULTS IN GOOD PART FROM
OUR LATE NOTIFICATION. THIS YEAR GSL FACES SIMILAR
DILEMMA IN THAT IT WOULD PREFER CONCESSIONAL
PL 480 BUT MUST ASSURE CY 76 FLOUR REQUIREMENTS
PROBABLY NO LATER THAN DECEMBER. PM WILL TAKE NO
CHANCES WITH FOOD SUPPLY BECAUSE OF VULNERABILITY
TO ATTACK FROM RECENTLY EXPELLED TROTSKYITE LSSP,
BECAUSE OF NON-ALIGNED SUMMIT IN AUGUST 1976, AND
BECAUSE NATIONAL ELECTIONS ARE SCHEDULED FOR 1977.
IF PM AND FINANCE MINISTER ARE TO FACE HARD
ECONOMIC POLICY DECISIONS, ESPECIALLY IN EXTERNAL
TRADE AND PAYMENTS AREA, EARLIEST POSSIBLE
ASSURANCE OF SIGNIFICANT AMERICAN FOOD AND
FINANCIAL AID WILL BE VERY IMPORTANT. WE, THEREFORE,
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 05 COLOMB 02961 161243Z

RECOMMEND EMBASSY BE AUTHORIZED BEFORE OCT 15
TO NEGOTIATE AT 140,000 TON WHEAT EQUIVALENT LEVEL.
PLEASE ADVISE.
VAN HOLLEN

LIMITED OFFICIAL USE

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC CONDITIONS, FOOD SHORTAGE, BALANCE OF PAYMENTS DEFICITS, FOOD ASSISTANCE, ECONOMIC ESTIMATES
Control Number: n/a
Copy: SINGLE
Draft Date: 16 SEP 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: GolinoFR
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975COLOMB02961
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D750320-0671
From: COLOMBO
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750945/aaaabnne.tel
Line Count: 205
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION AID
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 75 COLOMBO 2409
Review Action: RELEASED, APPROVED
Review Authority: GolinoFR
Review Comment: n/a
Review Content Flags:
Review Date: 23 JUL 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <23 JUL 2003 by MartinML>; APPROVED <24 JUL 2003 by GolinoFR>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: SRI LANKA ECONOMIC, FINANCIAL, AND FOOD OUTLOOK
TAGS: ECON, EFIN, EAID, CE
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006